



The transformation of the fuel retail sector

Adapting to the changing customer behavior
and industry trends

An Infosys Consulting Perspective

By Ian Gaylard, Vikram Chandrashekhar and Nandkishor Wankhede

Consulting@Infosys.com | InfosysConsultingInsights.com



Introduction

The fuel-retail sector is experiencing a transformative shift, with significant changes in customer behavior and the rise of new driving forces. This whitepaper explores how the increasing importance of retail propositions, adjacent services, and mobility is reshaping the industry. It delves into the challenges and disruptions fuel retailers face, such as declining fuel sales and transitioning towards a carbon-free economy.

Additionally, it discusses the impact of technology advancements, changing customer expectations, and the growing trend of online purchasing and delivery. It emphasizes the need for fuel retailers to reinvent themselves and offers potential solutions and strategies to navigate these changes successfully.



Market scenario - the changing paradigm of fuel retailing

The fuel-retail sector has undergone a drastic change, which is re-shaping the industry. This industry transition centered around the increase in the importance of the retail proposition, adjacent services, and mobility.

The changing customers' behavior of visiting retail fuel stations has resulted in significant changes to the increase of convenience retail and personalization. Fuels sales are declining, and trends suggest continuing to decline in the future, while non-fuel retail offerings will gain prominence. Also, the future of fuel stations is linked to the future of mobility. The significance of shared mobility and alternative fuels (electrification or hydrogen) will greatly impact the industry.

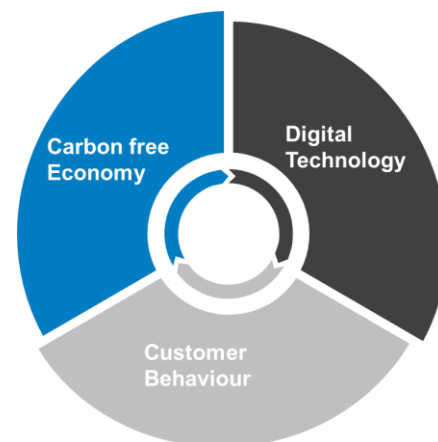
Fuel retail has been the oil and gas industry's most significant and resilient segment. The continuous growth of customer spending and grocery consumption enabled fuel retailers to leverage value from convenience retail and other non-fuel offerings.

Over the past decade, the fuel retail industry has experienced significant changes and will continue to evolve through some drivers. These forces of change led the fuel retailers to innovate and transform the business. The reshaping of the industry is centered around the increase in the importance of retail propositions.

Key challenges and disruptions

The fuel sales are declining and will continue to decline in the future. The new revenue streams from non-fuel retail offerings will gain traction and prominence.

Fuel retailers operating in a change in landscape driven by certain forces such as geopolitical change, a shift towards a carbon-free economy, a rise in digital connectivity, and new mobility and adjacent offerings influenced by a shift in customer behavior.



Driving forces of change for the fuel retailers

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Regulatory disruption: carbon-free economy

A global movement towards a carbon free economy is underway. The increasing focus on decarbonization has created a challenge for fuel retailers as less carbon-based fuel is likely to be sold, but it also allows them to explore new markets. The regulatory change for energy consumption and sustainability is on the verge of shifting the fuel retail industry's operating model.

Electric mobility has emerged as an immediate alternative to deal with fossil fuel challenges. Hydrogen has the potential to become a vital part of the transport mix in a low-carbon future requiring players to reinvent their business models.

Technology disruption: digital technologies and connectivity

Advancement in Technology and change in consumer behavior are enabling new business models in fuel retail. Other major disruptions include autonomous vehicles, battery technology, and the sharing economy.

Autonomous driving is growing and continuous investment in the industry is a warning sign for the fuel retailers as fuel consumption is predicted to decline. On-demand services and online retail consumption continue to evolve and raise

consumer expectations. Advanced network connectivity and technology infrastructure enabled people to experience the convenience of online shopping.

The use of personally owned and shared driver-driven vehicles is expected to decline. This mobility shift impacts the industry as customers prefer the shared mobility ecosystem model on demand over owning cars.

Customer behavior: expectations and convenience

Traditionally fuel retail was centered on the purchase of fuel by customers. About 90% of customers visited the fuel stations to purchase fuel and 10% for the adjacent services. Today's customer behavior has shifted towards convenience and go-to culture, accounting for more than 50% of the customers visiting the forecourt outlet for grocery shopping and adjacent service and only 19% visiting for fuel purchases. Over the next five years, convenience and more comprehensive mobility will overtake fuel retail.

Today's customer wants forecourt retailers to emphasize 'service' where they can accomplish multiple purposes, including shopping, in a single trip. They expect to seek digital retail experiences that positively impact their lives and well-being.

Consumer behavior trends in fuel consumption

Personalization

Customers expect a smooth and personalized digital shopping experience in the retail fuel market. The behavior change is attributed to more interest in convenience, adjacent services, and mobility offerings such as checkout-free stores, coffee shops, click-and-collect, home delivery, charging points and mobility hubs.

As consumers' needs evolve, they want to know if the convenience store attached to the fuel station can deliver groceries and stocks other products. Customers want to stock their pantry and keep their vehicle fuel tanks full. Today's customer is hyper-connected and expects a more personalized experience and service for their shopping.

Customers buying fuel and shopping at convenience stores expect the best experience throughout as they are looking for high-quality, fresh, healthy food options; better value; and more attractive store formats. Customers also want more personalized services and seamless, convenient experiences through options such as self-service checkout, home delivery, etc.

The trend of 'shop local' is getting popular and consumers already expect to find convenience, food, and coffee facilities within their local forecourt, particularly in rural areas. It is predicted that a larger share of revenue will come from the added services and therefore, fuel retailers could continue to build a 'shop local' mindset that consumers are now entirely on board.

Online purchase and delivery

The pandemic led to a surge in online ordering, even for the most traditional consumers. A significant percentage of these new behaviors are here to stay.

This change in customers' expectations and the emergence of online delivery has posed a significant challenge for fuel retailers, and they are prone to lose customers to the advanced retailers that offer fast and easy purchases and to increasingly innovative e-commerce players.

Accelerating forecourt experience

A shopper's mission of visiting a forecourt has shifted from need-based 'distress purchase' of fuel to convenience retailing. Non-fuel products such as groceries, tobacco, and meals-to-go are attracting more footfalls than fuel offerings.

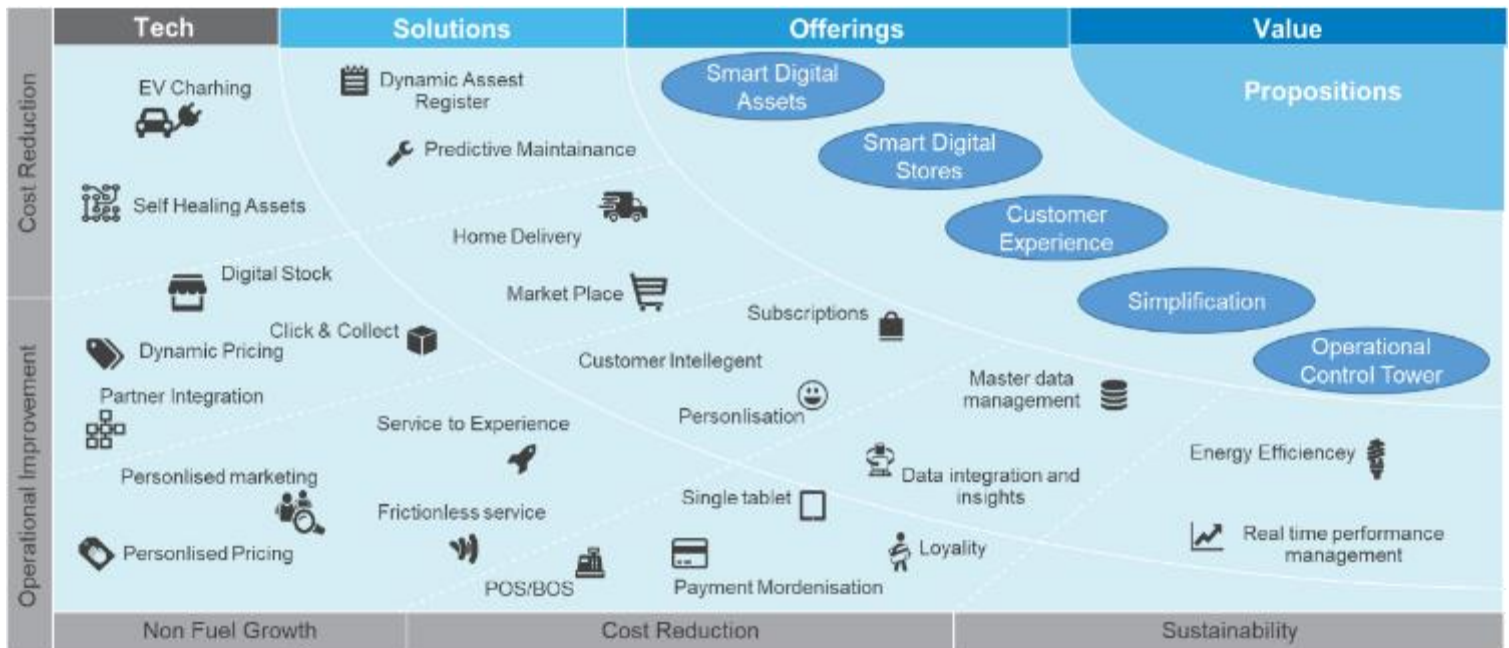
This trend of convenience culture has posed a significant challenge to the forecourt retail market, which is responding with people getting busier; forecourt stores have become one-stop convenience shops owing to their location advantage and extended opening hours. Additionally, amid the COVID fears, they appear as an alternative to high-traffic supermarkets. Since the pandemic, customers have shifted to the local and standalone convenience stores with fuel stations to avoid crowded supermarkets. Fuel retailers have, with convenience stores, become the one-stop shop for customers considering the extended opening hours.

The future of fuel retail

In the future, in-city forecourts will shape up to be 'convenience stores selling fuel' instead of fuel sellers with c-store offerings; the role of local forecourts as a 'fuel provider' will diminish. This will open vast opportunities for products and ancillary service offerings. They will have a smaller format/site with c-stores at the forefront to draw in passing trade. As the e-commerce trend intensifies, demand for intermediate storage is bound to increase, making in-city

stations well-placed to act as local distribution centers playing a pivotal role in last-mile delivery.

These forecourts are likely to face competitive pressures from two types of players - Disruptors such as 'store on wheels' (which deliver fuels and services directly to the customers, e.g., Zebra Fuel) and Traditional supermarkets.



Fuel retailers need to reinvent to stay relevant

Fuel retailers need to reimagine and reinvent themselves in these challenging times. In the short run, fuel retailers could continue pivoting an EV(Electric Vehicles) infrastructure; however, they need to define a long-term strategy centered around digital solutions, service-based offerings, and customer experience.

Infosys could help fuel retailers to extract the maximum value from its core business. Infosys offerings like smart digital assets, smart digital store, customer experience, simplification and operational control tower will help fuel retailers to optimize the asset value and the working capital creditor by reducing the cost and increasing the gross margin on the optimized operation.

These offerings present opportunities for a complete redesign of value capture through physical and digital stores. Infosys offerings support future convenience stores that are one-stop destination format fully integrated with the consumer's digital journey starting from awareness building to loyalty, all of which is convenient and seamless, enabled by automation, analytics, and digital technologies. This will require retailers to significantly unlearn and dismantle existing business models and refresh their value proposition focused on enhancing shopper satisfaction through effective digital enablers.

The demand for online solutions like home delivery is a permanent feature of the future, and there is an excellent opportunity for forecourt retailers to create solutions such as partner integration that facilitate a smooth process for consumers. Retailers can integrate pick-up lockers into their portfolio of services—not only with the delivery partners but also from pharmacies, laundry services, and other businesses.





CONCLUSION

In conclusion, the fuel retail industry is undergoing a significant transformation driven by changing customer behavior, regulatory disruptions, and technological advancements. Fuel retail retailers are facing critical challenges and disruptions, with fuel sales declining and non-fuel offerings gaining prominence.

The shift towards a carbon-free economy and the rise of digital connectivity are driving forces of change for the industry. Additionally, customer expectations for convenience and personalized experiences are reshaping the industry. Fuel retailers need to reinvent themselves by embracing digital solutions, service-based offerings, and enhancing customer experiences.

By leveraging innovative strategies and technologies, fuel retailers can navigate these challenges and continue to deliver value to customers in an evolving market.

Meet our convenience and mobility experts



Ian Gaylard

Associate Partner, Infosys Consulting

ian.gaylard@infosysconsulting.com



Vikram Chandrashekar

Senior Principal, Infosys Consulting

vikram.chandrashekar@infosysconsulting.com



Nandkishor Wankhede

Senior Consultant, Infosys Consulting

nandkishor_wankhede@infosysconsulting.com



Infosys[®] | CONSULTING

consulting@Infosys.com
InfosysConsultingInsights.com

LinkedIn: [/company/infosysconsulting](https://www.linkedin.com/company/infosysconsulting)
Twitter: [@infosysconsltng](https://twitter.com/infosysconsltng)

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For more information, contact consulting@infosys.com

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